

**Multifamily HUB and Program Center Directors;
Multifamily Project Managers & Appraisers;
Section 8 Contract Administrators, Owners &
Management Agents**

**Notice H 00-12
Issued 06/29/00
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Cross References:
Notices H 99-36,97-14,98-3,99-17

Procedures for Preparing, Submitting & Reviewing Rent Comparability Studies

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Attachments

- #1a** Appraiser's Certification
- #1b** USPAP 2000 Competency Rule

- #2a** Blank Rent Comparability Grid (HUD 92273-**S8**)
- #2b** Instructions for Completing Rent Comparability Grid (HUD 92273-**S8**)

- #3** Request to Renew under Option 2 Using FMRs as a Market Ceiling
(Both a blank and a sample completed form are provided.)

- #4a** Request To Renew Using Non-Section 8 Units in the Section 8 Project as a Market Rent Ceiling
- #4b** Comparison of Section 8 Rents and Rents Paid by Tenants Not Receiving Tenant Rental Assistance
(Both a blank and a sample completed form are provided.)

- #5** Suggested Comparable Property Profile

- #6** Sample Rent Comparability Study

SECTION 1: BACKGROUND, APPLICABILITY & OVERVIEW

1-1. Background.

- A. Notice 99-36 (*renewal procedures for Section 8 2000 renewals*) requires some projects to submit Rent Comparability Studies (RCSs) in order to renew their Section 8 contracts and Attachment 6 of that Notice provides procedures for preparing those studies. Notice 99-17 (*AAF rent procedures*) requires that other projects submit market rent analyses to obtain annual adjustment factor (AAF) adjustments that would cause rents to exceed 110% of fair market rents (FMRs).
- B. While the above notices' requirements as to which projects must submit a market rent analysis remain in force, this notice supercedes all of Attachment 6's and any Notice 99-17 guidance as to content and review of the rent analysis. Henceforth, this notice establishes the Office of Housing's procedures for performing, submitting & reviewing any rent analysis that Notice 99-36 or 99-17 requires owners to submit or Housing staff to purchase.
- C. Housing is revising its procedures to address concerns raised by industry representatives, field staff's request for more detailed guidance, and the results of a HUD-industry survey completed in the Fall of 1999. The survey showed disagreements among HUD staff and between HUD staff and appraisers as to what the RCS must include, what units may be used as comparables, and what adjustments are appropriate. The survey also indicated that appraisers were not adequately documenting or explaining adjustments and that HUD review and owner appeal procedures varied across HUD offices.

1-2. Applicability.

- A. This notice applies to all RCSs required by Notice 99-36 regardless of who [HUD Housing staff, other Contract Administrator (CA) or OMHAR] reviews the RCS.
 - 1. While owners and appraisers may choose to implement this notice immediately, they must comply with this notice for all RCSs:
 - a. owners request or contract for on/after **August 4, 2000**
 - or
 - b. appraisers submit to owners on / after **September 18, 2000**.
 - 2. HUD/ CA staff must also modify statements of work (SOW) used in contracting for RCSs so that new contracts require studies to be prepared and submitted in accordance with this notice. Headquarters will supply a sample SOW under separate cover.
- B. The Office of Multifamily Housing Assistance and Restructuring (OMHAR) has agreed to amend its Operating Guide to apply the new Rent Comparability Grid

and policies similar to those in Sections 3 and 4 of this notice to RCSs OMHAR processes or purchases.

C. When Notice 99-17 requires owners of new construction/ substantial rehabilitation projects to submit a HUD 92273, Estimates of Market Rent by Comparison, owners instead must either:

1. Submit the new Rent Comparability Grid (HUD 92273-**S8**) and other materials required by Section 4 of this notice. Owners must require appraisers preparing the reports to do so in accordance with the guidance in Section 3 of this notice, but should use Notice 99-17 to determine which units must be included in the RCS. (This paragraph takes effect on the schedule shown for Paragraph 1-2A above.)

or

2. Ask to use non-Section 8 units at the Section 8 project to set the market rent ceiling instead of performing a RCS if the project meets all of the conditions in Paragraph 2-3A 2 through 6 of this notice for all unit types for which Notice 99-17 requires a HUD 92273 rent comparison. The owner must submit a request in the format shown in Attachments #4a and 4b of this notice, but should delete references to renewals and instead refer to rent comparisons required by Notice 99-17. (Also substitute rent comparisons for references to renewals when reading Paragraph 2-3.)

Other provisions of Notice 99-17 (e.g., adding initial difference to the rent resulting from the analysis in Paragraph 1 or 2 above) still apply and Notice 99-17 determines which units the RCS must cover. When Notice 99-17 is updated, it will address these new RCS requirements and address using an RCS for 5 years as Notice 99-36 does for renewals.

D. This notice does *not* apply to market rent analyses required in development processing of applications for FHA insurance.

1-3. Overview of Changes. This notice gives HUD staff, Section 8 contract administrators (CAs), and appraisers guidance on HUD's standards for preparing, submitting and reviewing RCSs. More specifically, this notice:

A. Sets forth HUD's expectations regarding scope of appraiser's research and selection of comparable units. These topics are addressed in Section 3. The selecting comparables portion provides answers to questions such as: Can comparables be selected from outside the project's market area? Do government boundaries (e.g., state or county lines) affect market area definitions? May unassisted units in partially assisted projects be used as comparables? May tax credit (LIHTC) or other rent restricted units be used as comparables? Since prior notices provided only limited guidance on selecting comparables, field office answers to these questions often varied. This notice provides specific guidance on

each of these questions and, hopefully, will standardize practice so that RCSs will be treated similarly around the country.

B. Standardizes the content of the RCS. Because Attachment 6 did not clearly specify what an RCS must include, some HUD field offices developed their own requirements and the survey showed these vary. These variations unnecessarily complicate the RCS process for appraisers and owners doing business with more than one field office. Section 4 sets forth the new content requirements. These requirements mirror what the better studies have already been including -- clear, convincing narratives that explain what the appraisers did and why they did it on key points (e.g., selecting comparables, adjusting rents, deriving market rents from adjusted rents).

C. Clarifies how the Uniform Standards of Professional Appraisal Practice (USPAP) relate to the appraiser's preparation and HUD's / CA's review of RCSs. The main references to USPAP are contained in Paragraphs 3-1A5 and Paragraph 5-4.

D. Provides a new form, the Rent Comparability Grid ("*Rent Grid*"), for valuing and documenting adjustments to comparables' rents and provides detailed guidance on valuing adjustments. The new Rent Grid (HUD 92273- S8) is shown in Attachment 2a and a sample completed Grid is included in Attachment 6's Sample RCS.

1. The Rent Grid retains the basic structure of the HUD 92273, but reorders lines to make the analysis more logical and to specifically address neighborhood and other factors specified in the Section 8 renewal legislation. When prepared in Excel, the Grid automatically performs any calculation required on the form and displays a summary of adjustments that helps appraisers catch loading errors and gives reviewers a quick picture of the volume, level and direction of the adjustments.

Note: This Rent Grid replaces the HUD 92273, Estimate of Market Rents by Comparison, for purposes of Section 8 renewal processing, but the HUD-92273 will continue to be used for development processing as the Multifamily Accelerated Processing (MAP) program becomes operational. Later, Housing will explore applying the new form to market rent analyses used in development processing.

2. Paragraph 3-6 provides general guidance on valuing adjustments and specific guidance on valuing differences in utility, unit size and non-shelter services (e.g., elderly services, neighborhood networks, service coordination). In addition, Attachment 2b's instructions for preparing the new Rent Grid provide more detailed guidance for each line of the new Grid.

E. Permits some projects to demonstrate that rents are less than market without doing a RCS (i.e., selecting comparables and adjusting for differences between the comparables and the Section 8 project). This notice provides two alternate

methods. Only owners renewing under Option 2 of Notice 99-36 (using current rents adjusted by OCAF/ budget) may, at their option, ask to use these alternate methods.

1. Owners may ask to renew without an RCS if the contract's current gross rent potential and proposed OCAF/ budget based renewal rent potential is less than 75% of FMR. (*See policies and procedures in Paragraph 2-2.*)
2. Owners of projects only partially-assisted with Section 8 may ask to use the non-Section 8 units in the Section 8 project to set the market rent ceiling if: a) the proposed OCAF/ budget-based rent for each Section 8 unit type being renewed does not exceed the average rent charged for nearly identical, non-Section 8 units at the Section 8 project; and b) the project meets all criteria set forth in Paragraph 2-3 of this Notice.

F. Provides detailed procedures for CAs and HUD staff to follow in checking the timeliness, completeness and substance of RCSs. These procedures are in Section 5 of the Notice.

G. Requires that all HUD offices and Section 8 contract administrators give owners an opportunity to appeal the decisions HUD / the CA makes on RCSs. The HUD - industry survey showed that only some offices give owners a formal opportunity to appeal HUD/CA decisions on RCSs and that appeal procedures vary across offices. Given the significant financial impact that RCS conclusions have, HUD believes that all offices should share the reasoning underlying their decisions and give owners an opportunity to discuss and appeal those decisions. (*See Paragraph 5-5 for appeal procedures.*)

SECTION 2: ALTERNATIVES TO THE RENT COMPARABILITY STUDY

2-1. Introduction. This Notice gives owners three methods of demonstrating how the Section 8 rents proposed at renewal compare to rents charged for other units. The methods are listed below. This Section discusses eligibility rules and HUD review requirements for the first two methods. The remainder of the notice describes procedures for performing, submitting and reviewing the RCS listed below as option C. Options A & B are provided to avoid the costs, processing times and delays associated with RCSs when facts strongly suggest that the proposed rents would be under rents computed in a RCS.

- A. Comparing proposed Section 8 rents to fair market rents (FMRs), as provided in Paragraph 2-2.
- B. Comparing Section 8 rents to rents charged for other units in that Section 8 project, as provided in Paragraph 2-3.
- C. Purchasing and submitting a RCS in accordance with Sections 3 and 4 of this notice.

Note: Owners may elect Option A or B, but HUD may not require owners to use those options. The FMRs or rents for non-Section 8 units in the Section 8 project act as a cap or ceiling on rents computed using an OCAF or budget approach. Rents are not automatically set at FMRs or rent levels charged for other units in the Section 8 project.

2-2. Using FMRs to Determine Below Market Status.

A. Eligibility. Owners eligible to renew under Option 2 of Notice 99-36 may request to renew without a RCS if the current Section 8 gross rent potential and the proposed Section 8 gross **rent potential** at renewal are less than 75% of the FMR **potential** for the units being renewed. Since the FMRs represent the 40th percentile of area market rents collected in HUD's phone surveys, rents under the limit used here should almost always be below the typical market rent for the area. Any exceptions to this normal conclusion can be captured by the control imposed in Paragraph B1 below.

1. The Section 8 renewal potential used in the above comparison must be the current rent potential adjusted, per Attachment 4 of Notice 99-36, by the OCAF or the budget. The potential must be the gross potential (contract rent + utilities) to make the figure comparable to FMRs, which include utilities.
2. To request renewal using this FMR comparison, an owner must submit a request using the format in Attachment 3 of this notice. The owner also must submit only the following parts of Notice 99-36's Attachment 4.

-- The **first** page of Attachment 4's **Cover Sheet** identifying all contracts at the project and indicating which contracts will be renewed.

- If seeking a budget-based adjustment, a Budget Worksheet (Form HUD 92547-A).
 - If seeking an OCAF driven adjustment, Steps 1 and 2 of the OCAF calculation. **Note:** Since this notice's Attachment 3 will impose the market rent ceiling, don't impose a market rent ceiling on Line O of the OCAF worksheet. Instead, to compute the increase factor on Line N of Step 2, divide the adjusted potential (Line N) by the current Section 8 potential for the expiring contracts (Line E of Step 1).
- a. Use the form in Attachment 3 to compare the proposed OCAF/ budget adjusted rents and FMR rent levels. The FMRs create the market rent ceiling that is usually created using an RCS' rents. The proposed rent potential must be less than 75% of the FMR potential for the units being renewed. (FMRs are updated annually around early October and are posted on HUD's Internet @ www.huduser.org/datasets/fmr/html.)
 - b. If an owner elects this FMR method, there will be no RCS to update for budget-based rent adjustments or for renewals that occur within the next five years as discussed in Paragraphs VIII and X of Notice 99-36. Budget-based rent adjustments made during multiple year contracts will be processed as described in Paragraph XA-2 of Notice 99-36, but the market ceiling will be set by 75% of the FMRs in effect at the time the adjustment is processed. At any subsequent renewal, the owner must choose one of the three methods allowed in Paragraph 2-1 above.

B. HUD/CA processing. Staff should make a decision on the request within 20 calendar days after receiving the owner's request. Project managers may process these requests, but they should be familiar with the property's condition and amenities and must seek an appraiser's input as to prevailing rent levels in the subject market area.

1. Field staff should approve the request unless they have reason to believe that the proposed rents are over market. The field might challenge the request if, for example:
 - The units are unusually small, have limited appeal or offer substantially fewer amenities than typically offered in that market.
 - or
 - RCSs completed on other projects in the subject's area often produced market rents that were significantly lower than FMRs.
 - or
 - A previous RCS on this project concluded that the project's Section 8 rents were above market.

2. If HUD denies the owner's request, HUD may issue a short-term renewal to allow the owner a reasonable period of time to obtain a RCS prepared in accordance with Sections 3 & 4 of this notice. Owners may not appeal HUD/CA's denial of their requests to use FMRs in lieu of submitting a RCS. *(See Paragraph VI-F of Notice 99-36 for guidance on setting rent levels in short-term contracts.)*
3. Staff should document their decision on the owner's request form and in REMS.

2-3. Using Rents for Non-Section 8 Units in the Section 8 Project.

A. Eligibility. If the criteria below are met, the owner may request to use non-Section 8 units at that Section 8 project to set the market rent ceiling instead of purchasing and submitting a RCS. The project must meet these criteria *for each unit type* that will be included in the renewal contract.

1. The contract(s) is eligible to be renewed under Option 2 of Notice 99-36.
2. At least 25% of each unit type being renewed is occupied by tenants who pay the full rent due the owner and receive no tenant rental assistance. "Tenant rental assistance" includes project-based Section 8, certificates/vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state / other public subsidy. Tenant rental assistance does *not* include Section 236 interest reduction (IRP) subsidies, other construction/ mortgage based subsidies, or LIHTC / comparable state credits.
3. For each unit type being renewed, the proposed Section 8 contract rent is no more than the average rent tenants not receiving tenant rental assistance pay for that unit type.
4. Tenants in units used to compute Paragraph 3's average have been paying *(without assistance and for three or more months)* at least the rent levels used in computing the average. These tenants did and do not receive rental concessions or rebates and have no business or family relationship with the project's ownership or management.
5. The Section 8 units and the units occupied by tenants not receiving tenant rental subsidies are nearly identical and would not require adjustments if the units without tenant rent subsidies were used as comps in a RCS. "Nearly identical" means the two sets of units have the same number of bedrooms & baths; are similar in condition, layout & size; and have the same amenities & utilities included in the rent.
6. Occupancy rates in the units occupied by tenants not receiving tenant rental subsidies are not significantly less than occupancy levels for those unit types in the project's market area.

B. Owner Request

1. To request a renewal that limits OCAF/ budget adjusted rents to rents paid by tenants not receiving tenant rental assistance at the Section 8 project, an owner must submit a request in the format shown in Attachments #4a and 4b. The owner also must submit the parts of Notice 99-36's Attachment 4 that are listed in Paragraph 2-2A2 above.
2. If an owner elects this method, there will be no RCS to update for budget-based rent adjustments or for renewals that occur within the next five years as discussed in Paragraphs VIII and X of Notice 99-36. Budget-based rent adjustments made during multiple year contracts will be processed as described in Paragraph XA-2 of Notice 99-36, but the market ceiling will be set by computing the average rent paid by tenants not receiving rental subsidies at the time the adjustment is processed. At any subsequent renewal, the owner must choose one of the three methods allowed in Paragraph 2-1 above.

C. HUD/CA processing. Staff should make a decision on the request within 20 calendar days after receiving the owner's request. Project managers may process these requests, but they should be familiar with the property's condition and amenities and must seek an appraiser's input as to prevailing rent levels in the subject market area.

1. Field staff should approve the request unless they have reason to believe that the rents paid by tenants not receiving rental subsidies are significantly higher than rents in the surrounding area or that some of the eligibility conditions listed above are not met. Staff should:
 - Use REMS/ TRACS to check the data reported in the rent table attached to the owner's request.
 - Use Columns J and I of the owner's rent table to help assess compliance with the occupancy criterion in Paragraph 2-3A6 above. A significant vacancy may indicate that the project is asking too much for these units.
2. If HUD denies the owner's request, HUD may issue a short-term renewal to allow the owner a reasonable period of time to obtain the RCS. Owners may not appeal HUD/CA's denial of their requests to use projects' non-Section 8 units in lieu of submitting a RCS. *(See Paragraph VI-F of Notice 99-36 for guidance on setting rent levels in short-term contracts.)*
3. Staff should document their decision on the owner's request form and in REMS.

SECTION 3. PREPARING RENT COMPARABILITY STUDIES

3-1. Introduction.

A. Each RCS must:

1. Be prepared by or under the direction of an appraiser that meets the qualifications set forth in Paragraph 3-2 below.
2. Cover at least all unit types that have Section 8 assistance in the contracts being renewed now. Owners may also include other Section 8 unit types in other contracts that the owner plans to renew during the next five years. (For projects submitting RCSs to support AAF requests, Notice 99-17 determines which units must be studied.)
3. Estimate “market” rents for each Section 8 unit type, by adjusting rents of comparable units to reflect the location, condition, appeal, amenities, and utilities of the Section 8 units. “Market Rent” is the rent that a knowledgeable tenant would most probably pay for the Section 8 units as of the date of the appraiser’s report if the tenants were not receiving rental subsidies and rents were not restricted by HUD or other government agencies. **Note:** Appraisers should estimate market rent without considering the market’s ability to absorb all Section 8 units.
4. Be concise, but contain enough information that a person not familiar with the properties and market areas involved can understand how the appraiser arrived at his/her adjustments and opinion of market rent. At a minimum, the RCS must include the materials listed in Exhibit 4-1.
5. Be prepared in accordance with this notice and with the Uniform Standards of Professional Appraisal Practice (“USPAP”). (Standards are available at www.appraisalfoundation.org/uspap2000/toc.)
 - a. If this notice’s requirements go beyond USPAP, appraisers should consider the notice’s requirements to be supplemental standards and comply with them.
 - b. If this notice’s requirements conflict with USPAP, appraisers must comply with HUD’s requirements and may invoke USPAP’s Jurisdictional Exception Rule for the parts on which HUD and USPAP requirements conflict. Jurisdictional Exception is justified by *The Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act of 1999* (Title V of the Year 2000 HUD-VA Appropriations Act.) Section 524(a)(5) of Title V directs that “The Secretary [of HUD] shall prescribe the method for determining comparable market rent by comparison with rents charged for comparable properties...”.
 - c. Appraisers should review State laws and State real estate appraisal regulatory board rulings and determine whether the RCS is a consultation or an appraisal and comply with the appropriate parts of USPAP. HUD will

accept RCSs prepared under Standards 1 and 2 (for appraisals) or Standards 4 and 5 (for consulting services).

B. In preparing the RCS, the appraiser must take the actions listed below and further described in the rest of this section. The appraiser must have collected, updated or verified all data within 90 calendar days before the date of the appraiser's letter transmitting the RCS to the owner (or to HUD, when HUD purchases the study on mark-up-to-market or other cases.)

1. Inspect and analyze the subject Section 8 property and its surrounding neighborhood as discussed in Paragraph 3-3.
2. Select comparable units in accordance with Paragraph 3-4.
3. Collect and document data on the comparable units as discussed in Paragraph 3-5. Report the data on the Rent Grid shown in Attachment 2a and on a Comparable Property Profile. *(See Paragraph 3-5C and sample profile in Attachment #5.)*
4. Compare each comparable to the subject and adjust each comparable's rent to reflect the rental value tenants in the subject's market area would assign to differences between the comparable and the subject. To value the adjustments, follow the general instructions in Paragraph 3-6 and the Line-by-Line instructions in Attachment 2b. Enter the adjustments on the Rent Grid included in Attachment 2a.
5. Use the comparables' adjusted rents to derive an estimated market rent for each Section 8 unit type as directed in Paragraph 3-7. (This rent was formerly called the "correlated" rent.)

Note: Appraisers must comply with the Fair Housing Act and the provisions of USPAP related to that Act. Appraisers may not use or rely on unsupported conclusions related to the racial, ethnic or religious mix of the comparable or subject properties or their surrounding areas or upon other factors prohibited by the Fair Housing Act. Appraisers' opinions, conclusions and reports must be impartial and objective and not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions. *(See USPAP Advisory Opinion #16 for additional guidance on complying with Fair Housing requirements.)*

C. The project owner must review the appraiser's report and submit it as directed in Paragraph 4-4 of this notice. No more than 90 calendar days should have elapsed between the date the owner submits the RCS to HUD and the date of the RCS.

3-2. Appraiser's Qualifications.

A. The appraiser must:

1. Be a Certified General Appraiser, licensed and in good standing in the state where the property is located. The license may be temporary or permanent. (Owners can obtain lists of appraisers meeting this standard at www.asc.gov or from each state's appraiser regulatory agency.)
 2. Be currently active and regularly engaged in performing RCSs or appraisals of multifamily housing.
 3. Meet all the requirements of the Competency Provision in the Uniform Standards of Professional Appraisal Practice (USPAP) and have read all of this HUD notice. (Attachment 1b contains the USPAP 2000 version of the Competency Rule. Additional or updated information on USPAP can be obtained at www.appraisalfoundation.org.)
 4. Have no prospective or present financial interest in the Section 8 property, its ownership or management agent entity, or the principals of those entities.
 5. Not be an employee of the owner, the management agent, or the principals of those entities or have a business or close personal/family relationship with those parties that would commonly be perceived to create bias or a conflict-of-interest.
 6. Not be debarred or suspended from doing business with the Federal Government and not be under a Limited Denial of Participation (LDP) imposed by the HUB or Program Center having jurisdiction over the Section 8 project.
- B. The Appraiser must sign and take full responsibility for the report, but appraisal assistants may contribute to any of the tasks if: 1) they are employed by the same firm as the appraiser; and 2) the report identifies the roles the assistant appraiser performed.

3-3. Analyzing the Subject Property.

A. Identify Primary and Secondary Unit Types.

1. Identify all unit types that will be included in the renewal contract and any other units the owner elected, per Paragraph 3-1A2, to include in this study. Recognize a unit type for each rent level the owner is seeking following renewal.
2. Use the guidance in the rest of this Paragraph to label each unit type as a **primary** or **secondary** type. **Note:** Appraisers must estimate a market rent for each Section 8 unit type, but comparables and a Rent Grid will be required only for primary unit types. Appraisers may derive the market rent for a similar,

secondary type by adjusting the market rent derived on the primary type's Rent Grid. (*See Paragraph 3-7C.*)

- a. Consider the number of bedrooms and baths, the unit size, the structure (e.g., townhouse, elevator, walk-up), and any other factors the market would consider as significant differences. If two unit types have the same number of bedrooms and the same structure type but the units have only slight differences (e.g., an half bath, a few square feet, a view), consider the more common unit type to be *primary* and the other unit type to be *secondary*.

Example: Project has 100 3-bedroom, 2-Bath, 1000 sq. ft. units and 30 3-bedroom, 1.5 Bath, 900 sq. ft units. The owner is charging different rents for these two types. Label the most common type (the 2 bath, 1000 sq. ft unit) *primary* and the other *secondary*.

- b. If the units being renewed are located on scattered sites, the appraiser must determine if separate unit types are needed for different sites. The appraiser must visit each site and assess the extent of any differences in neighborhood, condition, street appeal, services, or market area. If units are located in different market areas or other differences suggest that separate comparables are needed, the appraiser should generally create separate unit types for the sites that vary significantly. Appraisers should use their professional judgment to categorize the unit types as primary or secondary.

B. Inspect and Photograph the Subject Property.

1. Inspect: at least one unit of each primary unit type; project grounds; and the interior and exterior common areas (lobby, laundry rooms, community or dining rooms, recreation rooms, parking areas, outdoor play areas). If the units being renewed are located on scattered sites, visit each site.
2. Take color photos of the items listed below. Take additional close-up photos as needed to show the property's condition.
 - subject's exterior, showing location on the site, exterior design, site layout, and site amenities
 - interior of typical units.
 - interior common areas (e.g., meeting rooms)

C. Determine and document project characteristics, condition and appeal. The appraiser must:

1. Determine and document the project's design, age, and structure. Assess the project's physical condition and overall appeal. Determine the extent of any major renovations made.

2. Identify all unit and site amenities and the type of utilities. The appraiser must consider all characteristics listed on the Rent Grid in Attachment 2a and any other characteristics that would affect the rent a tenant would be willing to pay.
 - a. **Projects designed for the elderly/ disabled.** Appraisers should identify *all* services provided for elderly/ disabled. Appraisers should consider whether emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping are offered. Appraisers should determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies.
3. Identify which services are included in the rent and any charges collected in addition to rent for services/ amenities. At projects providing **non-shelter services** (e.g., *service coordination, neighborhood networks, the elderly services noted above*), the appraiser should ask the owner/ agent to identify which services HUD/CA has authorized to be paid from rental income and which are paid from other sources. Other sources could include fees paid by tenants, other project funds (e.g. residual receipts), or grants from HUD or other agencies/businesses. [See Paragraph 3-6C4 for guidance on how funding source may affect valuing adjustments.]
4. Determine or verify the size of each unit type. Estimate the rentable interior square footage of the unit. Do **not** count balconies, mechanical areas, or other non-living spaces.

D. Assess and describe the surrounding neighborhood. Assess the project's location, noting factors that would impact market rent levels. Consider access to schools, employment and medical centers, transportation, shopping, recreation, and community services. Identify nuisance (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood.

E. Identify the project's market area -- i.e., the geographic area from which the subject property would draw the majority of its applicants. Identify street or other boundaries. Consider mobility patterns and natural or man-made barriers (rivers, freeways, rails, etc).

NOTE: Government boundaries like state or county lines usually do not establish market area boundaries as projects often draw from more than one town, county or state.

F. If the units being renewed are located on scattered sites, assess whether the sites vary significantly on condition, street appeal, services, neighborhood, or other factors.

3-4. Selecting Comparable Units.

A. Strive for Five Comparables Meeting Six Criteria. For each *primary* unit type identified pursuant to paragraph 3-3A2 above, the appraiser must attempt to identify comparable units from *five* different properties. The appraiser should select projects that would compete with the subject for tenants. The Appraiser must exert good faith effort to find comparable units that meet *all* of the conditions listed below. If the appraiser cannot find units that meet all of these criteria, the appraiser may use the methods discussed in Paragraphs B & C below.

1. Are in the same market area as the subject property
2. Are *not* receiving tenant rental assistance (project-based Section 8, certificates/ vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/ other public subsidy). The tenant must be responsible for the full rent due the landlord.
3. Have locations and neighborhood conditions (including crime rates and accessibility to services, employment, transportation, etc.) similar to the subject's.
4. Are located in projects that are similar to the subject in terms of project structure and layout, design, street appeal, age, size and unit mix, unit amenities and utilities.
5. Provide services and have project amenities similar to those available at the subject.
6. Are not rent restricted or rent controlled by a federal, state, local or other public program. This category includes LIHTC, HOME, HOPE VI, state/local rent controlled and rent stabilization units, and all units in 236, BMIR, 202/811, and Section 515 Rural Development projects. (**Important:** See Paragraph 3-4B below for additional guidance on using rent restricted units.)

Important:

- If a property contains rent restricted units or units with tenant subsidies but also has other units with no restrictions or subsidies, those units that are both unrestricted and unassisted may be used as comparables. Such mixes will often exist in tax credit, tax-exempt, state-financed, HOPE VI or Section 221d3/ d4 FHA insured projects.
- If the subject project has unassisted units that have the same number of bedrooms as a Section 8 unit type and are very similar to the subject, those unassisted units generally should be used as a comparable. (*If they aren't used, the appraiser must explain why in the selecting comparables narrative required by Section 4 of this notice.*)
- If the appraiser selects comparables that he/she knows have the same ownership/ management as the subject or are owned or managed by a company/ individual having an identity-of-interest with the owner or management agent of the subject property, this must be disclosed in the

Selection of Comparables section of the RCS report. (*See Handbook 4381.5, Paragraph 2-3 for a definition of the term “identity-of-interest”.*) Furthermore, the appraiser should take special care to verify the information, preferably through an unrelated party. For example, to verify that a unit is leased at the rent on-site management verbally gives, the appraiser might ask to see a copy of the lease.

B. Rent-Restricted Units:

1. If the appraiser cannot find five properties that meet all of the six conditions above, but can find rent restricted units that meet conditions 1 through 5, the appraiser may use the rent restricted units. Rent restricted units should only be used as comparables when they reasonably represent the market.
2. The appraiser may also use rent restricted units if less than five unrestricted, very similar units are available in the same market place but rent restricted units, that meet criteria A2-5, are available in a nearby, similar market area.
3. The appraiser must clearly disclose the use of rent restricted comparables and the nature of the rent restriction in the Selecting Comparables narrative part of the RCS and on the Rent Comparability Grid. (*Note: Appraisers may not adjust rents because the comparable unit is rent restricted.*)
4. While rent restricted units may in some cases reflect market rent (e.g., when LIHTC units make up a large percent of the multifamily units in a neighborhood or nearly all units are rent controlled), rent restricted units can also be below market rent. Therefore, the appraiser may want to discuss the use of rent restricted units with the owner and HUD appraisal staff before finalizing the selection of comparables. Appraisers hired by HUD/CAs to prepare studies for mark-up-to-market requests should be especially careful to avoid selecting rent restricted units that would artificially depress the RCS’s rent conclusions.

C. When five strong comparables don’t exist. HUD recognizes that finding five comparables meeting all of the criteria in Paragraph 3-4A above can be difficult in some markets. **Example:** when the subject is the only multifamily complex in a rural town or is the only property with four bedroom units. When the appraiser exerts good faith effort and conducts appropriate research but cannot find five comparables that meet all of the conditions in Paragraph 3-4A, the appraiser may adopt one or more of the following strategies.

- Use rent restricted comparables as discussed in Paragraph 3-4B.
- Select comparables from outside the market area.

Note: Appraisers should try to select a market area that is similar to the subject’s market area. In assessing similarity, appraisers should consider rent levels, housing prices, demographics, job opportunities and other relevant economic indicators. If equally good comparables are available in

more than one alternate market area and those market areas are similar, the appraiser should generally consider using an alternate that is near the subject. For Section 8 projects in rural areas, however, HUD recognizes that it will often be necessary to go to distant, alternate markets that are sometimes of a different character.

- Use comparables located in the same market, but less similar to the subject.
- If the above strategies do not produce five comparables for each unit type, use only three or four comparables for a unit type.

Note: No unit type may have less than three comparables. Before proceeding with less than five comparables, the appraiser may ask the local HUD office if it is aware of any comparables the appraiser has not already identified.

1. The appraiser shall use his/ her professional judgment to decide the pairing and ordering of the alternate strategies listed above.
2. If the appraiser adopts any of these alternate strategies, the appraiser must:
 - Disclose that he/she did so in the Selecting Comparables narrative part of the RCS.
 - Document what research was done to conclude that no other similar, non-rent restricted units or no units in the subject's market area were appropriate comparables.
 - Provide market-based data to support adjustments for physical or market area differences resulting from relying on less similar comparables or going outside the subject's market area.
 - Try to select some comparables that are superior and some that are inferior to the subject so that the subject is within the range of indicators.
 - Use units with a different number of bedrooms, units in properties of a different structure type (e.g. high rise vs. garden) or units in a different housing/ service category (e.g., assisted living/luxury retirement vs. a 202/811) only when comparables in the same category are not available in the same market area. The appraiser must provide market support for both the decision to use a different number of bedrooms or a different structure/ housing type and for any adjustments made for these differences.

D. Housing for Elderly/ Disabled. Many Section 8 elderly housing projects provide services that are greater than traditional rentals would provide but less than assisted living facilities provide. The mix of services varies widely among projects. Appraisers should attempt to locate comparables that offer the same level of services as the subject. Appraisers should select comparables with significantly higher service levels only if they can make market-based adjustments for

significant differences in service levels. For example, a complex that offers meals, transportation, assistance with dressing and medication, and 24 hour nursing oversight should be used as a comparable for a 202/ other elderly Section 8 project that offers transportation and activities only if more comparable rentals are not available.

3-5. Collecting and Documenting Data on Comparable Units.

A. Collecting Data. For each unit type, the appraiser must collect data on the elements listed in Parts A through E of the Rent Grid in Attachment 2a and on any other characteristics that would affect the rent a tenant would pay. The appraiser must also identify any services that are provided for additional fees and that a tenant would consider in selecting a rental. If the comparable is located outside of the subject's market area, the appraiser must provide the market data requested in Paragraph A4 below. The appraiser must:

1. Independently verify any information pulled from existing files, Internet research, newspaper ads or apartment guides.
2. View each comparable's grounds and *exterior* common areas. If access is given, also view *interior* common areas (e.g., lobby, laundry rooms, community or dining rooms, recreation/ fitness areas, business centers). **Note:** The appraiser is not required to inspect a comparable's unit interiors, but should do so if a unit is available and access is given.
3. Take color photos of each comparable's *exterior*, showing location on the site and exterior design and condition.
4. If the comparable project is in a different market area than the subject, the appraiser must collect market-based data to compare the rent levels in the two markets.
5. Obtain the unit's rentable interior square footage. Balconies, mechanical areas or other non-living spaces should be excluded. If the square footage available represents an exterior measurement, the appraiser must use his/ her professional judgment to convert the square footage to an interior measurement that can be compared with the interior measurements Paragraph 3-3C4 requires on the subject.
6. Talk with management to obtain overall occupancy rates for the project, typical and current occupancy levels specific to the unit type used as a comparable, and whether any unit type is particularly difficult to rent. If the comparable's occupancy rate for a unit type included in the RCS is not typical of the comparable's market, determine why. Is the rent too high or are other factors causing the vacancy? Also confirm and quantify the existence/ absence of any rent or use restrictions and tenant subsidies.

Note: If the contact person does not provide the unit size or other required information, the appraiser must try to obtain the data from other sources. The

appraiser must use his/her professional judgment to determine if the data is sufficient to justify using the unit as a comparable. (Paragraph 3-5C2 requires disclosure of data limitations.)

B. Identifying Non-Shelter Services. Appraisers should determine if the project provides non-shelter services. At projects for the elderly/ disabled, appraisers should take special care to determine if the project provides emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping. Appraisers should determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies. Appraisers should also identify which services are included in the rent and which are covered by additional fees residents pay.

C. Reporting Comparable Data.

1. For each *primary* unit type, the appraiser must report the data collected by completing the *data* columns of the Rent Grid shown in Attachment 2a and the Comparable Property Profile required by Paragraph 4-1A and Item 10 of Exhibit 4-1.
 - a. The appraiser must complete all lines of the Grid's data columns - i.e., even lines/items for which the appraiser will make no adjustment. All comparables for one unit type must be shown on one grid. (*See Paragraph 4-2 for more guidance on using this Grid.*)
 - b. Attachment 5 provides a suggested format for the Comparable Property Profile, but appraisers may use their own formats if those formats include all of the information listed in Item 10 of Exhibit 4-1.
2. In the Scope of Work section of the RCS report, the appraiser must identify any data that was unobtainable or estimated and all efforts to obtain data. (*See Exhibit 4-1, Item 2 for more detail on what the Scope of Work write-up must cover.*)

3-6. Computing Adjusted Rents for Comparable Units. The appraiser must use the Rent Grid in Attachment 2a to derive an *adjusted rent* for each comparable. Before doing so, appraisers should review the instructions in this paragraph and the line-by-line instructions provided in Attachment 2b.

A. To compute the adjusted rent, the appraiser must:

- Compute an **effective rent** by adjusting the most recently charged rent for factors (e.g., rent concessions) listed in Part A of the Grid.

- Determine which differences between the subject and the comparable unit would affect the amount of rent a typical applicant would be willing to pay in the subject's market area.
- For each difference tenants would value, adjust the comparable's rent by the amount tenants in the subject's market area would typically pay for that difference. Adjustments must be displayed in dollar amounts.

B. Adjust the *comparable to the subject*.

1. The goal is to determine what rent the comparable would obtain if the comparable were nearly identical to the subject. Thus, if the comparable is:

- ***inferior*** to the subject on a particular characteristic, adjust the comparable upward. Enter the adjustment as a positive value to indicate that residents of the comparable would pay more if the comparable had the subject's characteristic.
- ***superior*** to the subject on a particular characteristic, adjust the comparable downward. Enter the adjustment as a negative value to indicate that residents of the comparable would pay less if the comparable had the subject's characteristic.

Example: If the subject has a washer/dryer hook-up in the unit and the comparable does not and the appraiser determines that a typical renter would pay \$xx/month more for a unit with a washer/dryer hook-up, then the adjustment would be entered as a positive \$xx.

2. Appraisers must provide concise, but professionally complete explanations as to ***why*** the adjustments were made and ***how*** the dollar values were derived. If the data shows that a comparable differs from the subject significantly but no adjustment is made, appraisers must explain why. The explanations must be clear and convincing to a person not familiar with the properties and market areas involved.

- a. Do not just reiterate the entries in the data column. **Example:** Do not just say: "A negative adjustment was made to comparable 1 for location.". Instead, outline the data and logic used to arrive at the adjustment amount. Say something like:

Comparable #1 was adjusted downward to reflect its location in a more desirable neighborhood that consists primarily of single-family homes, has little crime and has good access to shopping. The adjustment was estimated by comparing the rents at Comparable #1 with those of Comparable #4, which is in the subject's neighborhood but otherwise very similar to Comparable #1. The average value of the superior location was estimated to be \$25.

- b. For all large adjustments and for items that are particularly quantitative (e.g., utilities), the appraiser must present market data to support his/ her

conclusions. For minor adjustments (generally in the \$5 to \$10 range), the appraiser may state his/ her subjective evaluation of why the observed differences would affect rent.

C. Special Concerns

1. **Rent Restricted/ Comparables.** No adjustment may be made for the fact that a rent is restricted as defined in Paragraph 3-4.
2. **Comparables Outside the Subject's Market Area.** If a comparable is located in a different market area than the subject, the appraiser must adjust for any *significant* differences in rent levels between the two areas. Line 10 of the Rent Grid provides space for the adjustment.
3. **Utility Adjustments.** If a utility (*heat for example*) is included in the rent at both the subject and the comparable, a prospective tenant would probably perceive these as equal choices even if the energy sources (gas, electric, or oil) differed and no adjustment would usually be needed. But, if a utility is included in the subject's rent but not the rent of the comparable (*or vice versa*), the appraiser must estimate the *rental value* of that utility and adjust accordingly.
 - a. For properties with typical utility costs, the "rental value" is probably close to what prospective tenants would expect to pay. However, for properties with unusually low utilities, prospective tenants initially may overestimate utility costs, putting rental value slightly above actual cost. For properties with unusually high utilities, the reverse may be true. Prospective tenants initially may underestimate utility outlays, causing rental value to be less than utility costs they actually incur following move-in.
 - b. If a utility is:
 - excluded from the comparable rent but included in the subject rent, enter a **positive** adjustment that reflects the amount prospective tenants would reasonably expect to pay for that utility at the **comparable**.
 - included in the comparable rent but not the subject rent, enter a **negative** adjustment that reflects what prospective tenants would reasonably expect to pay for that utility at the **subject**. [Since tenants make housing choices based upon total shelter cost (rent + utilities), estimated outlays for utilities reduce, dollar for dollar, the amount a prospective tenant is willing to pay for rent.]
 - c. The appraiser may use any reasonable method to value expected utility outlays, but must identify the method used and explain how the dollar adjustment was derived. Some data sources commonly used to value utility adjustments are listed below. Appraisers should use data that reflects the characteristic of the property on which the adjustment is based -- i.e., the subject or comparable as bolded in paragraph b above.

- Regional utility allowances published by independent public agencies
- data gathered from utility providers
- data gathered from tenants and landlords
- a HUD/ CA approved utility allowance if the type of service and building attributes considered in developing the utility allowance are similar to the comparable being adjusted.

4. Non-Shelter Services. If a project is seeking to mark up or down to market rent, appraisers must value adjustments as directed in Paragraph **4a** below. For other projects requesting an OCAF or budget-based rent adjustment, appraisers must value adjustments as directed in Paragraph **4b** below. Paragraph 4a applies to projects requesting OMHAR lites, projects seeking to mark-up-to-market, and exception projects marking down to market under Option 2 of Notice 99-17.

Note: If compliance with Paragraph 4a produces a market rent below the eligibility for marking up to market or an owner wishes to see the RCS before making a final decision on whether to request to mark up, appraisers may need to value adjustments pursuant to both Paragraph a and b below. *See Paragraph 3-7D below for guidance on how to present dual adjustment methods on the Rent Grid.*

a. **Marking-to-Market Projects.** *(See applicability at end of Paragraph 4 above.)* When comparing these projects with their comparables, appraisers may value the *availability* of any service regardless of funding source, but should recognize the value of services *actually provided* only for services that HUD/ CA has authorized to be paid from rental income. **Example:** If meals are provided but paid by tenant charges, the project's residual receipts or outside grants, the appraiser may recognize the value tenants place on having access to meals but not the value of actually supplying the meals.

Note: While the cost factor (OCAF) or budget will drive the rent levels on other projects that submit RCSs, on mark-to-market projects the market rent will drive or set the level of the renewed Section 8 rent. If services not authorized to be paid from rental income were valued in developing the market rent, Section 8 subsidies would end up paying for non-shelter services that Section 8 is not allowed to cover.

b. **Projects Requesting OCAF/ Budget-Based Rents.** Appraisers should assess the value of *all* services offered, regardless of whether the service is paid by the project, the tenant or other sources.

- Even services offered for a charge may have value as the market generally values the *availability*.

- Generally, services included in the rent or funded from sources other than tenant charges should be more valuable than services offered to residents for an extra charge.

On these under-market projects, the project's budget or the applicable OCAF drives the rent levels and HUD rules on use of project funds and budget approvals determine which services may be paid from rental income. Hence, valuing all services will not result in the misuse of Section 8 as it would in the marking-to-market projects discussed above. Valuing all services is consistent with USPAP's directive to consider rental value to tenants and will ensure that the market rent ceiling does not inappropriately hold rents to less than amounts authorized through HUD's budget rent procedures.

D. Concepts to Keep in Mind when Valuing Adjustments.

1. Not all differences between the subject and the comp require adjustments.

Adjust only for differences that would affect how much rent a tenant is willing to pay. If a difference would appear to affect rental value and no adjustment is made, explain why you didn't adjust.

2. Adjustments must reflect local markets. Base adjustments on what typical renters in the *subject's* particular market area will pay. Tenants in different markets may value amenities and services differently. **Examples:**

- Tenants in the Northeast might pay less for a swimming pool than renters in the South would.
- Tenants in colder regions are more conscious of heating costs and might pay more if heat were included in the rent than tenants in warmer climates would.

3. Adjustments often vary by unit type. Even in the same market, renters may value the same service differently among unit types. A second bathroom may be more valuable in a three-bedroom than in a two-bedroom unit. Similarly, 50 additional square feet may be valued differently in a 550 sq. ft, one bedroom unit than in an 800 sq. ft, two-bedroom unit.

4. Adjustments levels must reflect rental value, not construction cost or the cost of providing a service. Example: In adjusting for differences like an elevator, amortizing the cost of the elevator over its useful life is not what a market renter would do. Any adjustment should reflect only what residents would typically pay for the convenience of using the elevator rather than climbing stairs.

5. Adjustments, whether positive or negative, must be applied consistently. Don't make small negative adjustments when an amenity is superior while making large adjustments when the same feature is inferior.

6. Don't duplicate adjustments. Appraisers should be careful not to adjust for the same element in more than one place. **Example:** If adjustments are made for project appeal (Line 8) and age (Line 7), the appraiser should take care to ensure that the sum of those lines is not more than the value the tenant would place on all features covered by those lines.

3-7. Deriving Estimated Market Rents (*formerly called "correlated rent"*). For each primary unit type, the appraiser must analyze the adjusted rents computed pursuant to Paragraph 3-6 and determine, using his/her knowledge of the comparables, what point in that range of adjusted rents best represents the rent the subject could most probably obtain. The appraiser must enter this amount on Line 46 of the Rent Grid.

A. The appraiser must consider: the type, size and number of adjustments made; the quality of each comparable; whether a comparable's data was estimated or incomplete; and how the adjusted rents for each unit type relate to each other. Better comparables should receive more weight. While appraisers may compute and consider averages and other mathematical formulas, those calculations do not allow for exercise of the appraiser's professional judgment and should not, by themselves, determine market rents.

B. The appraiser must explain *how* the market rent was derived and *why* it was derived that way. If the appraiser weights some comparables more than others or sets the market rent at the very high end of the range of adjusted rents, the appraiser must explain why. Explanations should be brief, but understandable and convincing. The explanation should be included as comments for Line 46 of the Rent Comparability Grid.

C. Primary vs. Secondary Unit Types. If *secondary* unit types are included in the RCS, the appraiser may adjust the market rent of the related primary unit type to arrive at the secondary unit type's market rent. To do so, the appraiser may adjust the primary's market rent to reflect the slight differences (e.g., half bath) between the secondary and primary type and set the secondary's market rent at the resulting amount. The appraiser must explain *how and why* the adjustment was made. These comments should be presented immediately following Line 46's comments on derivation of market rent. (*Note: See Paragraph 3-3A2 for guidance on classifying unit types as primary or secondary.*)

D. Marking-to-Market Projects with Non-shelter Services. If an owner is considering marking rents to market under any vehicle to which Paragraph 3-6C-4a applies, the appraiser should first prepare the Rent Grid in accordance with Paragraph 3-6C4a's instructions on valuing adjustments. If the resulting rents indicate the project may not be eligible to mark up or the owner wishes to see what market rent would be under Paragraph 3-6 C4b's rules for OCAF/ budget requests, the appraiser need not complete a new grid. The appraiser may adjust the rent derived for marking up using the techniques described above for primary and

secondary units. The appraiser must explain *how and why* the additional adjustments were made. These comments should be presented immediately following Line 46's comments on derivation of market rent.

SECTION 4. CONTENT OF THE RENT COMPARABILITY STUDY

4-1. Overview of RCS Content.

A. Each RCS must include at least the materials listed below. Each item below must cover the topics or data identified in Exhibit 4-1 at the end of this section. An appraiser should provide information that goes beyond Exhibit 4-1 if such information is needed for HUD to understand the appraiser's conclusions.

- Appraiser's Transmittal Letter
- Scope of Work
- Description of Subject Property (*including color photographs*)
- Identification of the Subject's Market Area
- Description of Neighborhood
- Narrative Describing Selection of Comparables
- Locator Map for Subject and Comparables
- Rent Comparability Grid for Each Primary Unit Type
- Narrative Explaining Adjustments and Market Rent Conclusions (*one set of explanations for each Rent Grid*)
- Comparable Property Profiles (*each including a color photograph*)
- Appraiser's Certification
- Copy of Appraiser's License (*only if relying upon a temporary license*)

B. To expedite HUD review, appraisers must order material in hard copy reports in the same order as Exhibit 4-1 and present material in the format (e.g., grid/ table vs. narrative) noted in that Exhibit.

C. Narratives required by Exhibit 4-1 should be concise but contain enough information that a person not familiar with the properties and market areas involved can understand how the appraiser arrived at his/her conclusions. Attachment 6 provides a sample RCS.

D. To expedite preparation, the attachments to this notice provide Word or Excel files for any table/ grid requested in the Exhibit. Appraisers may download electronic versions of these files @ www.hud.gov/fha/mfh/exp/rentcomp.html. The Rent Grid may also be downloaded @ www.hudclips.org.

4-2. Preparing the Rent Comparability Grid ("Rent Grid"). Appraisers must use the Rent Grid (HUD 92273-S8) shown in Attachment 2a to document both the characteristics of the subject and the comparables and the adjustments made for differences between a comparable and the subject. Entries on the Rent Grid must comply with guidance provided in Section 3 (*especially Paragraph 3-6*) and in Attachment 2b's line-by-line instructions.

- A. A Rent Grid is required only for each **primary** unit type. For any **secondary** unit types, appraisers need not complete an entire grid. Instead, appraisers may start with the market rent for a primary type and adjust for the minor difference(s) between the secondary type and the related primary type. Appraisers must explain **why** adjustments were made and **how** they were made. The explanation should be presented immediately following the Line 46 explanation of how the market rent for the primary unit type was derived.
- B. While appraisers may manually type entries onto a hard copy form, appraisers are encouraged to use the Excel file in Attachment 2a as it: a) automates all calculations; and b) lets appraisers copy project-level data that stays constant across unit types. The Excel version is available as Form HUD-92273-S8 on HUD's website at the addresses noted in Paragraph 4-1D.

4-3. Owner Responsible for Completeness of RCS. The owner must ensure that the RCS includes all information required by Exhibit 4-1. Paragraph 4-4B1 requires owners to certify that they have checked the RCS for completeness.

4-4. Submitting the RCS to HUD.

A. The Owner must submit the RCS to HUD (or the Section 8 Contract Administrator (CA) if there is one) no later than 120 days before the expiration of the Section 8 contract. Early submissions are allowed, but owners should not submit more than 180 days before the contract expires. Owners should submit the RCS along with the other information required by Notice 99-36.

B. The submittal must include a cover letter in which the owner:

1. States that he/she has reviewed the content of the RCS and concluded that the RCS includes all material required by Exhibit 4-1.
2. States that the appraiser's narratives and Rent Grid accurately describe the subject project and properly treat non-shelter services and their funding sources as required by Paragraph 3-6C4.
3. Identifies any identity-of-interest existing between principals of the subject's ownership or management agent entity and the principals that manage/ own the projects used as comparables. (*See Handbook 4381.5, Paragraph 2-3 for a definition of the term "identity-of-interest".*)
4. Certifies that: a) neither the selection of the appraiser nor the appraiser's compensation was/is contingent upon the appraiser reporting a predetermined rent or direction in rent; and b) to the best of the owner's knowledge, the appraiser meets Paragraph 3-2A's conditions regarding absence of financial, employment, and family relationships.
5. Certifies that the fee paid for the RCS is the only compensation the appraiser will receive for the RCS work and there is no side agreement or other consideration.

6. Identifies whom HUD/CA should contact at the agent/ owner's office if staff have questions on the RCS and gives the email and phone number of the contact. **Note:** HUD/CA will send its decision letter to this contact unless the owner directs otherwise.
7. States whether HUD/CA may talk with the appraiser directly and copy the appraiser on written materials.

Exhibit 4-1

Required Contents for Rent Comparability Study

See Attachment 6 for a Sample RCS.

1. Transmittal Letter signed by the Appraiser. Address to project owner and date as of the date you gave the report to the owner. Include:

- ✓ appraiser's name, company name, address, telephone, fax number and email address (*These may be included in letterhead or body of letter.*)
- ✓ project name, FHA/other project number of the Section 8 project
- ✓ table of estimated market rent for each unit type included in the study. Use table format shown below. In last column, enter “Y” for yes if you prepared a Rent Grid for that unit type. Enter “N” for No for secondary unit types for which you did not prepare a grid, but instead adjusted the primary type’s estimated rent.

			<i>Estimated Market</i>		
Unit Type	# Units	Size (Sq. Ft)	Rent	\$/ Sq. Ft	Prepared Grid? (Y/N)
Total					

- ✓ statement that market rents were defined and estimated in accordance with Section 3 of this notice and the report was prepared in accordance with Section 4 of this notice.
- ✓ appraiser’s acknowledgment of how his / her report will be used: *Suggested language* -- I understand that HUD/the Section 8 Contract Administrator (CA) and the project owner will use my estimate of market rents to determine: 1) the owner’s options for renewing the project’s Section 8 contracts; and 2) the maximum rents allowed under any renewal contract.

2. Scope of Work. Acknowledge that all work was done in accordance with the requirements set forth in this notice. Provide a narrative describing:

- ✓ dates, number and types of inspections, and how unit sizes were verified.

- ✓ how rent, condition and amenity data were collected and verified. Note interviews, records reviewed, Internet sites used, etc. Indicate time period during which data was collected.
- ✓ any data that was unobtainable or estimated and all efforts to obtain that data
- ✓ any assistance from assistant appraisers

3. Description of Subject Property. Address the items listed below. **Note:** If the units being renewed are located on scattered sites and those sites differ significantly on condition, services, street appeal or other factors listed below, note those differences.

- ✓ *property name and address* (street, city, county, cross streets) and neighborhood name if applicable)
- ✓ *site characteristics and improvements:* number of buildings and their design (construction material, structure type), number of units; topography and density; and access to site
- ✓ *unit mix for all units in the project, not just the Section 8 units.* Use the table format below. Include all revenue-producing units in the project & group them by major unit types (e.g., # bedrooms/ # baths). (See Paragraph 3-4A 6 for a definition of rent restricted units.)

Unit Type	# Units	Interior Size (SF)	# Pjt- Based Sec 8 units	# Other Rent Restricted Units	# Units Not Rent Restricted
	Total		Total	Total	Total

- ✓ *condition:* age of property, state of repair, any recent/ planned rehab or refurbishing
- ✓ *schedule of charges collected in addition to rent*
- ✓ *3 to 5 labeled, color photos of exterior and interior* (See Paragraph 3-3B for more on photos. Place photos at the end of the RCS or in the body of RCS's description of the subject.)
- ✓ *population or occupancy group targeted for this project (e.g., elderly), if any*
- ✓ *summary of unit design and amenities*

- ✓ *summary of project service/ site amenities*: parking, recreational facilities, community areas, security, service coordination, neighborhood networks, transportation, meal services, social or educational activities, emergency call systems, laundry or housekeeping, and any other amenities for elderly or disabled.
- ✓ *name and phone number of contact person with whom* you verified or collected information on the subject property

4. Identification of the Subject's Market Area. Identify the geographic area from which the subject would normally draw its applicants.

5. Description of Neighborhood. Discuss the project's location noting factors that would impact market rent level. Cover at least the factors listed below. **Note:** If the units being renewed are located on scattered sites and those sites differ significantly on the factors listed below, note those differences.

- ✓ property types (multifamily, single family, commercial) and rural/ suburban /urban nature of community
- ✓ access to schools, recreation, transportation, shopping, medical and employment centers, community services or other features tenants at subject would seek
- ✓ nuisance (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood

6. Narrative Describing Selection of Comparables.

- ✓ Provide an overall assessment of the availability of comparables and the quality of the comparables selected and state *why* the comparables used were selected. If the unassisted units in the subject project have the same number of bedrooms and were not used as comparables, explain why. If less than five comparables were provided for any primary unit type, say so and explain why.
- ✓ Identify any comparables that are significantly dissimilar to the subject (e.g., different number of bedrooms, different structure type, different level of services). Describe what research was performed to determine that more similar comparables were not available.
- ✓ Identify any comparables that are outside the subject's market area. Describe what research was performed to determine that better comparables were not available in the subject's market area. Compare the rent levels in the alternate market area with those in the subject's market area.
- ✓ Identify any rent restricted units used as comparables. Explain the type of restriction (e.g., LIHTC, local rent control, etc.).
- ✓ Identify any comparables that are owned or managed by companies having an identity-of interest with the owner or management agent of the subject property.

7. Locator Map.

- ✓ Identify subject property and each comparable.
- ✓ Clearly mark major roadways and natural or man-made barriers (e.g., rivers, freeways, railways, etc).

8. Rent Comparability Grid (*Attachment 2a*).

- ✓ Complete one grid for each primary unit type using instructions in Attachment 2b and guidance in Paragraph 4-2 of this notice.
- ✓ Show all comparables for one unit type on one grid. Fill in all lines of the Grid's data columns, even if no adjustment is made on a line.

9. Narrative Explaining Adjustments and Market Rent Conclusions for Each Rent Grid.

Review the guidance in Paragraphs 3-6 and 3-7 and the line-by-line instructions in Attachment 2b before preparing this narrative. Be sure you explain the items listed below.

Note: Prepare a separate set of explanations for each grid. If an explanation applies to more than one comparable, you may refer back to that explanation rather than repeating it each time (e.g., the location adjustment was estimated for the same reason and in the same way as for comparable #X).

- ✓ **Adjustments made / not made:** For each adjustment, briefly explain *why* the adjustment was made and *how* you arrived at the dollar value of the adjustment. If data columns show a comparable differs significantly from the subject project but no adjustment was made, explain why.
- ✓ **How market rent was derived from comparables' adjusted rents**. Explain *how* the market rent was estimated and *why* it was derived that way. Note which comparables were given the most weight and why. If some comparables were weighted more heavily than others were or the estimated market rent is set at high end of adjusted rents' range, explain why.
- ✓ **How market rent for a primary unit was used to derive a market rent for a similar, secondary unit type**. Explain *what* adjustments were made and *why*. Put these comments immediately following Line 46's comments. (*Note: See Paragraph 3-3A2 for guidance on classifying unit types as primary or secondary.*)

10. Comparable Property Profiles.

Provide a one-page, table/ grid profile of each comparable property used in the RCS. Profile each property only once, regardless of the number of unit types for which the property was used. The profile must include at least the items listed below. *Attachment 5 provides a sample profile, but appraisers may create their own table / grid formats.*

- ✓ *property name and address* (street, city, county, cross streets) and neighborhood name
- ✓ *name and phone number of contact person with whom* you verified or collected information on the property and the date you did so.

- ✓ a *color photo* (at least 3” by 5”) of the project’s exterior. (Interior photos may be included if available, but they are not required.)
- ✓ A *rent and unit mix table*. Include *all units* in the project and group them by major unit types (e.g., # bedrooms/ # baths). Indicate which unit types are used as comparables in the RCS.

Unit Type	No. of Units	Used as Comp in RCS? (Y/N)	Average Rent	Interior Size (SF)	Any Rent Restrictions? (Y/N)
	Total				

- ✓ Total number of units at the project and project-wide occupancy.
- ✓ List of any charges tenants pay in addition to rent.
- ✓ Describe *any rent / income/ use restrictions or tenant rent subsidies* (Section 8, certificates, vouchers, state/local payments on behalf of residents) in effect at the property. Provide this information even if the units covered by the restriction/ subsidy were not the units studied in the RCS.

11. Appraiser Certification (*Attachment 1a*)

- ✓ Fill in blanks and sign and date the Certification. When entering names, also give title. (Example: Sharon Jones, Assistant Appraiser)
- ✓ Enter “*none*” in items 8 and 10 if you have nothing to disclose.

12. Copy of any Temporary License the appraiser is relying upon for this RCS. Any temporary license relied upon must be issued by the state where the property is located.

Important: The following items are *NOT* required in a RCS.

- Demographic trends for the market
- Interior photographs of comparables
- Copy of Engagement Letter

- Appraiser Qualifications (In Attachment 1a's Appraiser Certification, appraisers certify that they meet all of the appraiser qualifications set forth in Paragraph 3-2. of this notice.)
- Copy of Appraiser's Permanent License (*See Item 12 on temporary license.*)

SECTION 5: HUD/ CA REVIEWS OF RENT COMPARABILITY STUDIES

5-1. General. This section gives Housing staff and Section 8 Contract Administrators (CAs) guidance on how to review RCSs prepared and submitted in accordance with Sections 3 and 4 of this notice. (Section 2 provides procedures for reviewing owner requests to use FMRs or the Section 8 project's non-Section 8 units in lieu of performing a RCS.) When referring to a particular staff position, this Section uses titles typically used at HUD. Contract Administrators should translate those to their own position titles.

A. While field offices and CAs may develop their own worksheets for completing these reviews, both Housing staff and CAs must adhere to the policies and time frames set forth in this section.

B. A State - certified general appraiser should oversee all RCS processing and ensure that all staff involved in processing have read and understand this notice. While program assistants (PAs) or project managers (PMs) may screen the RCS for compliance with timeliness and content requirements, ideally a HUD/CA appraiser should complete all substantive reviews of the RCS's facts, reasoning and conclusions. If staffing does not permit that, the Director of Multifamily may authorize PMs to assist with the substantive reviews if the conditions below are met.

1. Rejections are issued only after a State-certified general appraiser has reviewed the study and concluded that the rejection is warranted. Rejections are decision letters that either: a) tell the owner the study must be redone and resubmitted; or 2) challenge the study's rent conclusions and suggest an alternate rent.
2. PMs have read and understand this notice.
3. PMs are allowed to independently accept an RCS's rent conclusions only:
 - a. after the HUD/ CA appraiser has reviewed the PM's processing of several cases and found the PM's work to be acceptable.
 - b. if the Director requires the PM to seek appraiser input on "exceptional" cases. The Director and appraiser may establish the list of factors that would trigger appraiser input. It is suggested that appraiser input be required when:
 - less than 5 comparables are used or comparables are rent restricted units, located outside of the subject's market area, or significantly dissimilar to the subject (e.g., different number of bedrooms, structure type or level of services).
 - adjustments are unusually large or not commonly made in the applicable market area, the adjustments don't meet the general rules in Paragraph 3-6, or the RCS appraiser did not adjust for differences that the PM reasonably expects would require an adjustment.

- the explanation of how market rent was derived from adjusted rents is not convincing or the market rent is set very near the top of the range of adjusted rents.
4. HUD/CA appraisers should retain review of RCSs submitted by RCS appraisers who have previously submitted inadequate RCSs.

5-2. Special Procedures for Mark-up-to-Market Projects. Since Notice 99-36 (*Attachment 4B, Part VI*) requires two RCSs on projects seeking to mark-up-to-market and establishes final rents by comparing the results of those studies, review procedures for these projects vary slightly from reviews required on other projects.

- A. CA/HUD staff must complete Paragraph 5-3's completeness and timeliness checks on both the owner submitted and the HUD-purchased study, but Paragraph 5-4's substantive review is required only on the study HUD purchases.
- B. Paragraph 5-4C's communications are between the contract appraiser and CA/HUD staff. Staff need not send owners copies of written correspondence questioning the contract appraiser's work.
- C. As provided in Notice 99-36 (*Attachment 4B, Part VI-B3*), owners seeking to mark-up-to-market may not appeal HUD's determination of renewal rents.

5-3. Initial Screening for Completeness and Timeliness.

A. Within 10 calendar days, the PA/ PM should determine:

1. Is the date on the RCS appraiser's cover letter within **90** calendar days of the date the owner submitted the study to HUD? Did the RCS appraiser update data within 90 calendar days prior to the date of his/her report? (*Data collection dates should be discussed in the Scope of Work section of the appraiser's report.*)
2. Has the owner submitted all information required by Paragraph 4-4?
3. Has the appraiser included all items required by Paragraph 4-1 and do those materials contain all of the information required by Exhibit 4-1? Be sure to check for these items:
 - Did the appraiser sign the appraiser certification, fill in blanks and enter the license information requested on the bottom of the form?
 - Are names of contacts at the comparables and the subject included?
 - Is the market area identified and a locator map included?
 - Are photos of interior and exterior of the *subject* included? Photos of exterior of all *comparables*?
 - Was selection of comparables explained? If applicable, was justification for using fewer than 5 comparables, rent restricted units, units outside of

subject's market area or units significantly dissimilar to the subject (e.g., different number of bedrooms, structure type or level of services) included? Was justification for not using similar unassisted units in project as a comparable included, if applicable?

- Is a Rent Grid included for at least every primary Section 8 unit type? If Grids were included only for primary unit types, did the appraiser include an explanation of how market rent was derived for any secondary unit types?
- Is an explanation of adjustments provided for each Rent Grid?
- Did the appraiser explain how market rent was derived from adjusted rents?

B. If more than 180 calendar days elapsed between the date the RCS appraiser updated the data and the date the owner submitted the report to HUD/CA, staff should return the report to the owner and ask the owner to have the appraiser update the data. **Note:** Staff should not return reports when either the owner or the RCS appraiser exceeded the 90 day timeframe Paragraph 3-1C imposes on the owner or Paragraph 3-1B imposes on the appraiser, but the data is no older than 180 days.

C. If the submission is incomplete, within 10 calendar days after receipt staff should ask the RCS appraiser (by phone or email) to submit missing items within 7 calendar days. If the appraiser does not submit the missing items within the 7 days, staff should write (hard copy/ email) the owner contact and advise that the report will not be processed until the items are submitted. **Note:** The owner contact should be specified in the owner letter required by Paragraph 4-4. Staff may contact the RCS appraiser directly unless the owner has specifically objected to that in the owner certification required by Paragraph 4-4.

5-4. Substantive Review. The HUD/CA appraiser, or the PM working in coordination with the appraiser, must determine if the RCS appraiser's selection of comparables, adjustments, and rent conclusions are reasonable. The HUD/CA appraiser is not required to agree with every detail of the RCS, but only be convinced that the suggested market rents are reasonably supported by market facts. The RCS should contain sufficient information to convince a person unfamiliar with the market areas or properties involved.

Note: Policing compliance with USPAP should not be the focus of HUD/ CA's review. HUD/CA appraisers should be concerned about a RCS's compliance with USPAP only if they find significant problems in the research, facts, reasoning or conclusions noted in the report. Staff should not check for completeness of USPAP clauses just for the sake of doing so.

A. Listed below are key questions staff should answer. Staff should document any concerns or conclusions.

1. Do the facts presented in the appraiser's narratives and grid accurately depict the subject? **Note:** Paragraph 4-4B requires the owner to certify to the accuracy of these facts.
2. Does HUD/ CA have any data on comparables that differs significantly from data the RCS appraiser presented on comparables? If an appraiser has submitted incorrect facts on other reports or HUD/CA questions the facts, HUD/CA may wish to verify the facts with the contact persons identified in the RCS.
3. Is the appraiser's definition of the market area reasonable?
4. Does the appraiser's explanation of how comparables were selected cover all points required by Paragraph 3-4 and Exhibit 4-1's Narrative on Selecting Comparables? If applicable, is justification for using fewer than five comparables, rent restricted units, units outside of subject's market area or units significantly dissimilar to the subject (e.g., different number of bedrooms, structure type or level of services) convincing? Is justification for not using similar unassisted units in the subject as a comparable convincing?
5. If comparables were selected from outside the subject's market, did the appraiser adequately describe how the two markets' rent levels compare? If the rent levels differed, did the appraiser make a reasonable adjustment in Part B of the Rent Grid?
6. Are other adjustments in Parts A through E of the Rent Grids reasonable - i.e., consistent with the facts, standard appraisal practice, and Paragraph 3-6? (Pay special attention to extremely large adjustments and adjustments in Parts A and B of the Grids.)
 - a. Staff should not challenge minor differences between the RCS adjustments and values the HUD/ CA appraiser would assign if they were doing the RCS. Appraisal is not a science and two reasonable, informed estimates may differ slightly.
 - b. Staff should not spend significant time reviewing and challenging adjustments if correcting the perceived flaws would not affect the rent an owner will receive (*now or in next few years*) or the estimated market rent shown on the grid. **Example:** Current contract rent is \$450, the owner is seeking a \$20 increase and it's clear the market rent will be well above the \$20 even if adjustments were revised. In this case, it would not be cost effective to spend extensive time analyzing or challenging adjustments that are reasonably close.
 - c. For projects with non-shelter services, staff should assess whether the RCS appraiser complied with Paragraph 3-6C4's guidance on valuing adjustments. Did the appraiser consider the funding source and whether

services were actually provided or just accessed through the project? For marking-to-market projects, did the appraiser value service delivery only for services the HUD office/CA has authorized to be paid from the project's rental income as directed in Paragraph 3-6C4a?

7. If the facts indicate an adjustment is needed but no adjustment is shown, did the RCS appraiser adequately explain why an adjustment was not made?
8. Is the estimated market rent for each primary unit type within the range of adjusted rents? Did the appraiser convince you that the market rent was an appropriate point in the range?
9. If the appraiser adjusted the market rent of a primary unit type to arrive at the market rent for a secondary unit type, is the appraiser's explanation of the adjustment reasonable?

B. Field Visits. While HUD/CA reviews usually only require a desk review, HUD/CA appraisers may conduct a field review if they believe a site visit is needed to accurately assess the RCS. Appraisers may wish to consider site visits when:

1. The desk review raises major questions.
2. The reviewing appraiser is not familiar with the market area, the subject project or the comparables.
3. The reviewing appraiser is considering challenging adjustments for condition, appeal, neighborhood or other factors that can change quickly and that appraiser has not visited the property recently.

C. Communicating Results of HUD/CA Reviews. HUD/CA should convey the results of their substantive review within 30 calendar days after receiving a complete package from the owner.

1. If HUD/ CA staff agree with the appraiser's market rent conclusions, they should document that agreement on any office review form and notify the PM that the market rents in the RCS are acceptable for use in further processing of the renewal.
2. If aspects of the RCS are unclear or unconvincing, the HUD/CA staff should ask the appraiser for additional information or explanation. If the issues are minor and staff expect easy resolution, staff may call the appraiser. If concerns are many, more significant or complicated, staff should send the appraiser an email / fax/ hard copy letter stating the concerns and giving the appraiser 7 to 10 calendar days to respond. (*Copy the owner contact on any written correspondence except on mark-up-to-market cases.*) The RCS appraiser should send the information to HUD and copy the owner.

3. If the appraiser's response does not resolve the HUD/ CA staff's concern, staff may talk with or write the appraiser / owner again. (*Copy the owner contact on any written correspondence except on mark-up-to-market cases.*)
4. Within 10 calendar days after final information was due from the owner/ appraiser, HUD/CA staff must either: 1) accept the study and proceed as described in Item C1 above; or 2) draft a decision letter challenging the RCS.
 - a. The decision letter must be signed by the Program Center Director, clearly state the reasons the RCS is challenged, and list the owner options and deadline cited in Paragraph 5-4C4b below. The letter may reject the study completely and require resubmission of a new study or present alternate rents. Any alternate rents must be developed by a HUD/CA appraiser and be consistent with this notice's procedures and USPAP. The letter must tell the owner how the appraiser arrived at the suggested market rent.
 - b. The owner may accept the letter's rents, resubmit a new study, or appeal HUD's decision. Within 10 calendar days after the date of HUD/CA's letter, the owner must advise HUD in writing of his/her choice. Submission of a new study restarts processing.
 - c. If the owner appeals or will resubmit an RCS, HUD/ CA may prepare a short term renewal to allow time for processing the appeal.

5-5. Owner Appeals.

Note:

- No appeals are allowed on projects seeking to mark-up-to-market. See Notice 99-36 (*Attachment 4B, Part VI*) for details on how final renewal rents are set by comparing the owner-submitted and the HUD-purchased rent study.
 - If an owner claims to have rents under market but the HUD/ CA review concludes that rents are over market, HUD/ CA should follow the procedures in Items 1 through 3 of Paragraph 5-4C above and this paragraph before referring cases to OMHAR as directed in Paragraph XIA or VIIIA3 of Notice 99-36.
 - HUD/ CA staff should follow this Paragraph's appeal procedures to carry out Notice 99-36, Paragraph VIII A3's directive to provide an opportunity for appeal.
- A. If an owner decides to appeal, the owner must note that choice as required by Paragraph 5-4 C4b above and must then submit a written statement of his/her reasons for appeal and any data that supports his/ her objections.** The owner may request a meeting, but must still submit the written data. The reasons and data must be submitted within 15 calendar days after the date of HUD/CA's initial decision letter. The letter must be delivered, via email/fax/ mail, to the Program Center Director.

B. If the owner requests a meeting, HUD/CA should hold the meeting or a conference call within 15 calendar days of the date of the owner's appeal. The owner, the RCS appraiser, the HUD/CA appraiser that reviewed the RCS, and the Program Center Director/ designee should participate. The Director and HUD/CA appraiser should consider if a field visit is needed to accurately process the appeal. *(See Paragraph 5-4B for more on field visits.)*

C. The Program Center Director should issue a letter reporting the results of the Agency's review of the appeal. HUD/CA may accept the RCS, reject the study completely and require resubmission of a new study, or propose alternate rents. The Program Center should issue the letter within 15 calendar days after the latest of: the date the owner submitted the basis for the appeal; the date of any meeting/conference call conducted per Paragraph B; or the date by which owner agrees to submit additional information requested by HUD.

D. The owner may accept/ appeal the Program Center Director's decision on the first level appeal. The owner must submit a written statement of his/her reasons for appeal and any data that supports his/ her objections. The submission must be received within 15 calendar days after the Program Center Director's decision letter and must be addressed to the HUB Director and copy the Program Center Director. The Owner may also request a short-term renewal if the contract has expired or if expiration is imminent. *(See Paragraph VI-F of Notice 99-36 for guidance on setting rent levels in short-term contracts.)*

1. The HUB Director will determine if the appeal has potential merit and, if so, issue a short term renewal to allow time to process the appeal. The HUB Director may contact the Owner, the RCS appraiser, or the Program Center Appraiser for clarification or additional information.
2. The HUB Director should issue a decision letter to the owner within 15 calendar days after the date the owner appealed to the HUB. The letter must clearly state the basis for HUD's decision.

5-6. Imposing Sanctions on Appraisers. If, after the substantive review and communication, discussion or appeal pursuant to Paragraph 5-4 or 5-5, a CA or Program Center Director still concludes that the appraiser's work is seriously deficient, the CA/ Program Center Director should consider:

- reporting egregious violations or repeated technical violations of USPAP to the state's real estate appraisal regulatory authority; and
- imposing or recommending imposition of HUD's administrative sanctions [Limited Denial of Participation (LDP), suspension or debarment].

5-7. REMS Updating. HUD/CA staff should ensure that REMS is updated for any RCS processing, as required by Notice 99-36 and REMS user instructions.

This Notice H 00-12 is approved and authorized for distribution.

William C. Apgar,
Assistant Secretary for Housing-Federal Housing Commissioner